

# Teachers' pensions

Are you ready to make a decision?



*We understand that independent schools have a lot to deal with right now. Against an uncertain backdrop, pension and reward offerings represent both a risk schools can actually gain some control over, and an opportunity to make your teachers' reward packages future ready. This quick checklist will help you focus on the issues that matter and make a decision with confidence at the right time.*

The four key things you need to do are:

**Get up to speed** – Pensions are complex, and the landscape is moving. With a new TPS valuation underway, ongoing court cases and potential future reforms to the TPS it's important to ensure that your decision-making process starts with the facts.

**Understand your options** – There isn't a "one size fits all" answer, and the range of options individual schools can consider is broad. It'll be important to evidence that you've considered the full range of options and considered why they might be right or wrong for you.

**Consider the impact** – Your teachers are essential to the success of your school. The impact on your teachers' benefits (both during and after their working lifetime) of any course of action will need to be balanced with the cost and risk implications for you as a school.

**Make a decision** – Any proposal you make to your teachers will need a robust business case and rationale for change.

The rest of this document provides an action plan for you to work through to ensure you're ready. If you would like advice and support in reaching a decision that is right for your school, please contact our dedicated specialist TPS advisory team using the details below. We would be pleased to give you more information about our decision-making advice service, which we have mentioned in the action plan.

## Contact LCP

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April 2020

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# Are you ready to make a decision?

## Get up to speed

Area	Action	Done?
TPS benefits	<ul style="list-style-type: none"><li>• Understand the key benefits provided by the TPS, including:<ul style="list-style-type: none"><li>○ the core “salary in retirement” pension benefits (and how these are different for different individuals); and</li><li>○ ancillary ill-health and death benefits.</li></ul></li></ul>	
TPS costs	<ul style="list-style-type: none"><li>• Understand the key terms used when talking about pensions.</li><li>• Make sure you understand the key reasons behind the 2019 employer cost increases, and consider the key reasons why costs may increase again.</li></ul>	
TPS risks	<ul style="list-style-type: none"><li>• Understand the current key risks including:<ul style="list-style-type: none"><li>○ Exit penalties</li><li>○ Benefit uncertainties (McCloud case)</li><li>○ 31 March 2020 actuarial valuation</li></ul></li></ul>	

Whilst much of this may seem like common sense, we have seen consultations falter where decisions have been made based on, at best, limited information and, at worst, overstatements of the risks involved with TPS participation. Module 1 of our decision-making advice service covers all the above points in detail.

## Understand your options

Area	Action	Done?
The big picture options	<ul style="list-style-type: none"><li>• Understand the broad range of options available, including<ul style="list-style-type: none"><li>○ remaining in the TPS,</li><li>○ moving to a defined contribution scheme,</li><li>○ moving to an alternative defined benefit arrangement</li><li>○ looking at combining some of these options.</li></ul></li><li>• Whilst moving to a defined contribution arrangement is likely to be the only viable alternative to the TPS for most schools, consideration of all of the options is important.</li></ul>	
Structure of alternative	<ul style="list-style-type: none"><li>• Consider the range of possible defined contribution structures, what the wider market is doing, and how much flexibility to offer.</li><li>• Could also consider “parallel schemes”, the potential “mixed economy” option, or reviewing your teacher remuneration structure more broadly.</li><li>• Consider the costs associated with the preferred structure and how this aligns with business plans.</li></ul>	
Ancillary benefits	<ul style="list-style-type: none"><li>• Consider what ancillary benefits (e.g. death in service and income protection) to provide, and how much they could cost.</li></ul>	

Having a clear idea of your potential destination is important for making a decision whether to consult with your teachers about a potential exit from TPS. If you decide to consult, being able to communicate a clear proposal is also paramount. Modules 2 and 3 of our decision-making advice service cover the above points in detail.

# Are you ready to make a decision?

## Consider the impact

Area	Action	Done?
Pension and other reward benefits	<ul style="list-style-type: none"><li>• Consider the benefits teachers might receive in the TPS versus a potential alternative. Consider the potential variability in outcome in a DC scheme. We'd expect this to be an iterative process balancing cost constraints with the impact on teachers' benefits.</li><li>• Ensure you understand the impact moving away from the TPS could have on how benefits already built-up in the TPS increase going forwards.</li></ul>	
Ancillary benefits	<ul style="list-style-type: none"><li>• Consider impact on teacher take-home pay and flexibility.</li><li>• Consider the impact for teachers of different ages, and ensure that ancillary benefits are properly budgeted for – these benefits are extremely important to teachers, particularly in the exceptional circumstances when they're needed.</li></ul>	

Ensuring that you have properly considered and appreciate the impact a move away from TPS could have on teachers' retirement outcomes is essential. Module 4 of our decision-making advice service covers all the above points in detail, and our interactive modellers help you understand in real-time the impact moving away from the TPS would have on both school costs and retirement outcomes for teachers.

## Make a decision

Area	Action	Done?
Cost, risk, teacher impact	<ul style="list-style-type: none"><li>• Balance the competing demands of cost pressure, risk exposure, and the impact on teachers in coming to a decision.</li><li>• We recommend doing this by comparing and contrasting the status quo with the potential alternative developed previously.</li></ul>	
Change process	<ul style="list-style-type: none"><li>• Ensure you understand the consultation and change process, and have sufficient resource, time and capacity to be able to manage it.</li><li>• Consider any knock-on impacts e.g. views of support staff.</li><li>• Consider your consultation plan.</li></ul>	
Business case	<ul style="list-style-type: none"><li>• Evidence the business case for maintaining the status quo or proposing an alternative to consult on with your teachers. You could structure this across the three pillars of cost, risk and teacher impact.</li><li>• Ensure you have a plan to communicate this clearly with your teachers.</li></ul>	

Evidencing the decision-making process and business case is essential when proposing to make any changes. Module 5 of our decision-making advice service covers all the above points in detail, and our "decision-making standard" will help you reach a conclusion.